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INTELLIGENCE MEMORANDUM

THE 1954 SOVIET BUDGET

CIA/RR IM-401

15 November 1954

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CIA/RR IM-401  
(ORR Project 14.125)

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THE 1954 SOVIET BUDGET\*

Conclusions

The striking points of the 1954 Soviet budget are the large increases in investment and allocations to agriculture and the consumer industries, increases in investment to heavy industry, and a leveling off of explicit defense allocations. Large rises in unknown sources of revenue suggest the possibility of unreal revenues, deficit financing, or a combination of both.

There are two unreal items in the 1954 budget -- one representing loss in revenue of 15.7 billion rubles because of the reduction in retail prices, the other representing loss in revenue of 23.3 billion rubles because of the rise in the procurement and purchase prices of agricultural products. Estimated undisclosed expenditures are 9.7 billion rubles.

Investment in industry, agriculture, transport, and trade will rise 24 percent over the amount actually invested in those items in 1953. The main part of the rise will go to agriculture and the consumer goods industries. At the same time, heavy industry is to receive a sizable increase and the major portion of investment funds.

Traditional sources of revenue have risen little in 1954. The main rise is to come from the profits tax, fulfillment of which depends on the successful lowering of costs of production and on the fulfillment of the plan for output. The state loan is planned at the same level as in 1953, an average subscription of 2 weeks' wages per capita.

The 1953 budget benefited the consumer primarily through short-term measures which increased his disposable income. The 1954 budget

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\* The estimates and conclusions contained in this memorandum represent the best judgment of the responsible analyst as of 1 July 1954.

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preserves those same measures and also provides for long-term benefits by way of investing in agriculture and the consumer industries.

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I. Introduction.

The 1954 Soviet budget shows the extent to which the Malenkov government is intending to carry out its new economic program. Implementation of the new economic program in 1953 was rendered difficult by commitments already made and by the necessary time lags required for the reallocation of resources. This year, more than half of the rise in capital investment in industry, agriculture, transport, and trade will go to agriculture and light industry. At the same time, budgetary outlays for maintenance of and procurement for the defense establishment have been reduced to 9 percent less than planned 1953 expenditures. This year's budget reflects, more intensively than the 1953 budget, investment in and benefits to the consumption sector of the economy. There is no evidence in the budget plan of a mobilization of resources for hostilities. Nevertheless, the 1954 budget allocation for defense, though reduced from 1953, appears adequate to maintain the Soviet armed forces at their present strength and level. Economic intentions revealed by the budget support those announced by Malenkov in August 1953.

The new program for the development of agriculture and of consumer goods production, which was announced by Malenkov in August 1953 and was described specifically in subsequent decrees and orders, seems to be the framework for the new budget. Last year, measures were taken which had immediate effects -- a reduction in the state loan and agricultural tax and an increase in the plan for trade turnover made possible by withdrawals from stocks, sales of obsolete goods, and increased imports. 1/\* In connection with the reallocation of resources and the stepping up of the production plan for consumer goods and agriculture, however, difficulties arose which are reflected in the relatively small increase of 4 percent in capital investment for 1953. 2/

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\* Footnote references in arabic numerals are to sources listed in the Appendix.

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Some of the same measures which brought immediate effects in 1953 are being continued in 1954 such as the reduced state loan and agriculture tax. In addition, increased resources are being allocated to agriculture and the consumer goods industries. 3/ By 1954 the re-orientation to the new economic program has been largely accomplished to an extent that insures some degree of success in the plan for re-directed investment.

II. Budget Revenue.

Planned revenue in the 1954 budget is 572.5 billion rubles -- 32.8 billion rubles over revenue collected in 1953 and 28.2 billion rubles over revenue planned in 1953. Planned budget revenue in 1954 is shown in Table 1,\* together with the planned and actual revenues for 1950-53. Significant changes in revenues are a decline in turnover tax receipts, resulting from reductions in retail prices and the raising of procurement prices; a significant rise in profits tax receipts, resulting from a higher goal for lowering the costs of production and increasing turnover; and a large rise in secondary and undisclosed revenues. In all, traditional primary sources of revenue (turnover tax, profits tax, state loan, population tax), which account for about 70 percent of total revenues, rose by approximately 5 billion rubles over 1953 planned revenues, leaving the bulk of the rise in revenue to come from secondary and undisclosed sources. After estimating certain known secondary sources of revenue, there is left an increase of about 29 billion rubles unaccounted for within the unknown category. It is difficult to say where this increase originates.

There may be an item included in revenues which is either fictitious or indicative of deficit financing. In the war years, there was deficit financing, but the budget showed expenditures higher than revenues. It is possible that new accounting methods are now being used in this connection, just as other new accounting methods are being used in other connections.

A. Turnover Tax.

The turnover tax is an excise tax levied on consumer goods and petroleum products. It is collected at either the stage of production or the stage of distribution. It is the largest source of budget revenue, usually amounting to about 50 percent of the total.

\* Table 1 follows on p. 4.

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Table 1

Soviet Budget Revenues  
1950-54

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	1950 <sup>4/</sup>		1951 <sup>5/</sup>		1952 <sup>6/</sup>		1953 <sup>7/</sup>		1954 <sup>8/</sup>	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Turnover Tax	239.1	236.1	244.7	247.8	260.7	246.9	240.4	243.6	234.4	
Deductions from Profits	40.0	40.4	47.2	48.0	62.0	58.5	80.7	70.3	92.8	
Taxation on Population	36.4	35.8	43.4	44.3	47.4	N.A.	46.1	N.A.	45.7	
State Loans	31.8	31.0	33.4	37.0	42.6	N.A.	28.4	N.A.	(27.4) <sup>a/</sup>	
Social Insurance Funds	19.3	N.A.	21.1	21.4	21.4	21.9	(23.0)	23.2	24.7 -	
MTS Revenue	4.2	N.A.	5.2	N.A.	6.0	N.A.	(7.5) <sup>b/</sup>	N.A.	(9.5) <sup>b/</sup>	
Taxes on Enterprises and Organizations	10.0	N.A.	7.6	N.A.	10.2	N.A.	(12.5)	N.A.	(14.5)	
Collections and Various										
Montax Income	13.3	N.A.	(13.6)	N.A.	14.0	N.A.	(14.5)	N.A.	(15.0)	
Customs and Reparations	25.8	N.A.	(26.0)	N.A.	26.2	N.A.	(24.4) <sup>c/</sup>	N.A.	(20.0) <sup>c/</sup>	
Allocations for Retail Price Cuts							43.2	N.A.	15.7	
Allocations for Raising Procurement Prices							(3.8) <sup>d/</sup>	9.0 <sup>e/</sup>	23.3	
Carryover from Republic and Local Budgets	2.9	N.A.	2.9	N.A.	2.9	N.A.	3.1	N.A.	3.4	
Other Revenues	(10.4)	N.A.	(13.6)	N.A.	(16.5)	N.A.	(16.7)	N.A.	(46.1)	
Total	433.2	422.1	458.7	470.3	509.9	497.7	544.3	539.7	572.5	
Surplus	5.3	9.4	7.2	27.3	33.0	37.5	13.8	24.9	9.7	

a. Figures in parentheses are tentative estimates made, except where noted, on the basis of previous years.

b. Increases in Machine Tractor Station (MTS) revenues are estimated on the basis of increased MTS activity.

c. Reductions in this item are based on the ending of reparations in 1952 from Rumania, Hungary, and Finland, and of reparations from Germany in 1953.

d. The 1953 Budget Law allocated 6.5 billion rubles for raising procurement prices of livestock products and other measures connected with livestock; kolchozes were to receive in 1953, 3.8 billion rubles additional income because of the rise of procurement and purchase prices of meat and milk. <sup>9/</sup>

e. The 1954 budget speech stated that over 9 billion rubles had been used in 1953 for raising procurement and purchase prices.

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Since 1951 it has been declining as a result of large reductions in retail prices and of increases in procurement prices on agricultural products. Turnover tax in 1954 is planned at 234.4 billion rubles, or 6 billion rubles less than planned last year. Since retail price cuts cause a loss in state revenues, 10/ and since there is no evidence of substantial declines in production costs, it is assumed that the loss largely takes the form of reduced tax receipts. The only other source of state revenue included in the price of a product is profit, and at the time of large price reductions, planned profits and deductions from profits taxes have not suffered.

Rises in procurement prices of agricultural products also cause a loss in turnover tax receipts. Procurement organizations pay turnover tax, and when their costs rise and retail prices stay constant, turnover tax rates must be reduced if the organizations are not to suffer losses or reduced profits. Turnover tax receipts are chiefly determined by the volume of retail trade turnover. Exact proportionality of movement cannot be expected because petroleum products provide turnover tax receipts but do not enter into trade turnover and also because sales of products subject to different tax rates show disparate rates of increase. Trade turnover is scheduled to rise 15.5 percent in constant prices in 1954. The gap between turnover tax receipts planned in 1954 and those which would be expected at this higher level of trade is accounted for by retail price reductions and increases in procurement and purchase prices, which are discussed below.

B. Deductions from Profits.

Deductions from profits are planned to be 92.8 billion rubles in 1954, compared with 70.3 billion rubles collected from this source in 1953, an amount 10.4 billion rubles less than planned. The profits tax is levied on state enterprises. In 1949, when subsidies were abolished and wholesale prices and freight rates raised, revenues from this source rose considerably. 11/ In 1950, deductions from profits fell slightly, but since then they have risen markedly each year. The fulfillment of the plan for profits, and hence for deductions from profits, depends primarily on fulfilling output and successfully lowering costs of production. It particularly depends on raising labor productivity, which Zverev stressed in the budget speech. Industrial labor productivity in 1954 is to rise by 8.3 percent, compared with a 6-percent increase achieved in 1953 12/ and 7 percent in 1952. 13/ It is planned that total profits will rise from 89.8 billion rubles, the figure achieved in 1953, to 123.2 billion

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rubles, a rise of 37 percent. Table 2 shows Soviet profits and profits taxes in 1953 14/ and 1954. 15/

Table 2

Soviet Profits and Revenues  
from Deductions from Profits  
1953-54

Billion Rubles			
	1953		1954
	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>
Total Profits	111.5	89.8	123.2
Deductions from Profits	80.7	70.3	92.8
Retained Profits	30.8	19.5	30.6

Because profits are a residual and depend on the level of output, on investment outlays, and on changes in labor productivity and production costs, they are difficult to estimate with precision. The serious underfulfillment of the profits plan in 1953 probably resulted from a combination of difficulties encountered in meeting targets for output, investment, labor productivity, and cost reduction -- difficulties which were compounded by the sudden shifts in resource allocations ordered under the new economic policy.

The period 1951-54 has shown a trend of substitution of deductions-from-profits receipts for turnover tax receipts, as indicated in Table 3.\*

Both the turnover tax and profits are considered sources of "socialist accumulation" or "net income" -- that is, the difference between cost of production and selling price. In 1954, approximately one-third of net income will be derived from profits and approximately two-thirds will be derived from the turnover tax. Soviet theorists assert that by consistently lowering retail prices, and thus the amount received from turnover tax, there will be a more equal distribution

\* Table 3 follows on p. 7.

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Table 3

Comparison of the Receipts from the Soviet Turnover Tax  
and from Deductions from Profits  
1951-53 and 1954 Plan

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
Total Revenues (Billion Rubles) <u>a/</u>	470.3	497.7	487.5	533.5
Turnover Tax (Billion Rubles)	247.8	246.9	243.6	234.4
Proportion of Total Revenue (Percent) <u>a/</u>	52.7	49.6	150.0	43.9
Deductions from Profits Tax (Billion Rubles)	48.0	58.5	70.3	92.8
Proportion of Total Revenue (Percent) <u>a/</u>	10.2	11.7	14.4	17.4

a. Total revenue in 1953 and 1954 does not include the unreal budget entries in the budget -- that is, loss of revenue due to price cuts and losses resulting from increased procurement prices (see Table 4). Unreal entries in 1953 include the Plan figure for allocations for retail price cuts and the actual figure for allocations for raising procurement prices.

of net income over various branches of the economy, including branches of industry. 16/ In other words, the long-term Soviet goal is probably a continuation of the trend shown above, and a higher rate of increase in profits than in turnover tax. This implies constant lowering of tax rates and a maximization of profits through lowered costs and increased production and goods turnover.

C. Population Taxes and the State Loan.

The planned taxation of the population in 1954 is slightly lower than 1953, reflecting the continued effects of the new agricultural tax policy laid down in 1953. Besides the changing rate of taxation of agricultural income, other measures in this field were

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taken in 1953. Townspeople and workers in villages with an agricultural income were freed from the principal part of their agricultural tax obligation, and the rates of various tax collections from the kolkhoz market were "significantly lowered." 17/ Also the 1954 state retail price reductions, contrary to usual practice, did not include foodstuffs which are also sold on the free market. 18/ Thus prices received by the peasants were not forced downward in competition with State store prices. Hence the farmer's income from free market sales was not affected. These policies have served as incentives for private agricultural production and will decrease the divergence between rural and urban living standards.

The state loan collected from the population this year is the same as last year, an average of two weeks' wages per capita. The planned increase in personal savings deposits in 1954, 9.5 billion rubles, 19/ also will be borrowed by the state from the savings banks, together with a small amount from social insurance organizations, bringing the total amount to be borrowed by the state to about 27.5 billion rubles, as compared with 28.4 billion rubles in 1953. Personal savings deposits increased in 1953 by 12 billion rubles, about three times the average postwar increase. 20/ High savings in 1953 and 1954 represent increments to purchasing power and also the expectation of greater availability of consumer goods.

D. Secondary Sources.

Secondary sources of revenue include social insurance funds, revenue from Machine Tractor Stations (MTS), taxes on enterprises and organizations, collections and various nontax income, customs and reparations, and carryovers from the republic and local budgets. Information on revenues from these sources is available as recently as 1952, and, for the most part, reasonable estimates can be produced as to their amount in 1954. MTS revenues and expenditures are entered in the budget on a gross basis. Thus the total receipts of MTS are revenues to the budget. In 1952, expenditures of MTS exceeded income by 11 billion rubles. It has been estimated that MTS revenues would rise in 1953 and 1954 more than in other recent years as a result of the widening and developing of MTS activities. Expenditures to MTS, however, are also rising steeply in 1954, so that the ratio between expenditures and revenues is even greater than in 1952. It is estimated that expenditures in 1954 will exceed revenues by 21 billion rubles. As long as intensive investment is carried on in the MTS, expenditures will continue to exceed revenues by a large amount.

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Customs and reparations are practically impossible to estimate except on the basis of trends in other years, since no ruble value can be assigned to reparations.

After estimates of secondary sources have been made, which are explained in more detail in Table 6,\* there is left an undisclosed residual of 46.1 billion rubles, compared with 16.7 billion rubles last year. The sources for the rise in this item remain unknown. There is left the possibility that some of this unknown revenue is unreal or that it represents deficit financing.

E. Unorthodox Accounting Entries in the 1953 and 1954 Budgets.

There have been some suggestions that the 1953 budget contains an overlarge undisclosed residual in both revenue and expenditures to the amount of 40 billion rubles. That is not accurate. The 1953 Soviet budget contains a heretofore unmentioned category for the allocation of revenues "for the lowering of state retail prices." This category calls for an expenditure of 43.2 billion rubles and a balancing revenue. In August 1953, speaking before the Supreme Soviet, Zverev said, 21/

The general sum of revenues of the State Budget of the USSR for 1953 including revenues of the budget of autonomous republics and local soviets from local sources receipts, and also including revenues, allocated for the lowering of state retail prices, carried out from 1 April 1953, is defined in the plan of the Soviet of Ministers at 543,357,320 thousand rubles.

The general sum of expenditures of the State budget of the USSR for 1953, including expenditures of the budgets of autonomous republics and local Soviets, and also including expenses for the lowering from 1 April 1953, state retail prices, is presented for confirmation at 530,532,048 thousand rubles.

In the budget speech, Zverev allocated 43.2 billion rubles for the price reduction of 1 April 1953. The revenue item is probably

\* P. 19, below.

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of the same magnitude since these revenues are "allocated for the lowering of state retail prices on 1 April." In the past, this item has not been included in the budget. The only reflection of price reductions in the budgets of previous years is in reduced receipts from the turnover tax and perhaps from deductions from profits. For instance, in 1951, Zverev said that the retail price reductions represented a "pure loss for the state budget." 22/ In 1949, he specifically said, "... the income part of the State budget is far strained, owing to the reduction of retail prices in 1949, which reduced state incomes in the ten months of this year to the sum of 43.8 billion rubles." 23/

In 1953 it would seem that the price reduction has been reflected twice, once in reduced tax receipts and once in additional entries mentioned above.

In 1954 the budget includes an item of 15.7 billion rubles, funds allocated for the price reductions of 1 April 1954. The budget law states 24/:

To confirm within the USSR State Budget for 1954 the allocation of funds set by the USSR Council of Ministers at 15,734,000,000 rubles from the revenue of the current year for the reduction of state retail prices for food and manufacturing commodities which was carried out as of April 1 ... .

The fact that the revenue is of the current year indicates that the revenue loss is due to this measure.

In the 1954 budget there is yet another new accounting entry, similar to the price reduction entry. This is the "allocation of funds set by the USSR Council of Ministers at a total sum of 23.3 billion rubles for compensation in connection with raising of procurement and purchase prices for agricultural produce, which was carried out in 1953." 25/

It is impossible for this item to be included in the procurement section of the budget in the category Financing the National Economy. If, from the total agriculture and procurement allocation of 62.5 billion rubles, 30.8 billion rubles for MTS and 23.3 billion rubles for raising procurement prices are subtracted, there is left only 8.4 billion rubles for all other agricultural expenditures, which

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cover allocations to sovkhozes, cotton growing, forestry, agricultural service organizations, and other losses of procurement organizations. In 1952, the item planned for these other agricultural expenditures amounted to 17.7 billion rubles. It is most unlikely that in 1954 that same item should amount to 8.4 billion rubles, less than half of the 1952 allocation.

It is therefore assumed that there is an entry under "Other Expenditures" which designates raising procurement prices. The most logical place for this item would be in a section entitled "Returned revenues and various payments." A further definition of this section given in 1939 by Rovinskiy is rebates on turnover tax. <sup>26/</sup> It is believed that the source for financing the increase in procurement prices is the turnover tax. (Evidently profits are not the source, since no decline in 1954 is evident.) Moreover, it is evident that the 1954 plan for turnover tax receipts is lower by about 25 billion rubles than the amount of tax computed for receipt in 1954, taking into account an increase in the trade turnover plan and loss of tax from the retail price reduction of 1 April. Assuming, therefore, the entry is a tax rebate, and the plan for turnover tax does not include receipts designated for such a rebate, there must be a revenue item in "Other Revenues" to include turnover tax receipts designated for rebate.

In conclusion, there seem to be in 1954 fictitious entries on both sides of the ledger which represent tax rebates for raising procurement and purchase prices of agricultural products. This entry is much like the fictitious price reduction entry which represents tax rebates for retail price cuts.

It seems that the most logical reason for the 1953 inclusion of price reduction costs in the budget is one of propaganda. Without this item the 1953 budget would have shown little increase over 1952. With this item the 1953 budget showed a normal rate of growth compared with the 1952 rate. In order to show any rate of growth at all, the 1954 budget has had to continue this practice by matching in near amount the fictitious items of the 1953 budget. The expenditure for the rise in procurement is merely a tax rebate and cannot be considered real.

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### III. Budget Expenditures.

Total planned expenditures in the Soviet budget for 1954 are 562.8 billion rubles, 48 billion rubles more than actual expenditures in 1953, and 32 billion rubles more than planned expenditures in 1953. Planned budget expenditures in 1954 are shown in Table 4,\* together with the planned and actual expenditure in 1950-53. The most significant increases in expenditures are in the fields of agriculture, consumer industry, and social-cultural measures. These seem to have been made at the expense of an expanded defense program. Heavy industry continues to assume the dominant role in the national economy and received a 10-percent increase in investment. Defense expenditures are planned at 100.3 billion rubles, compared with planned expenditures in 1953 of 110.2 billion rubles and actual expenditures in 1953 of an indeterminably smaller amount. In general, the national economy receives about one-third of the budget funds, social-cultural measures about one-fourth, and Defense about one-fifth. These traditional primary expenditures account for 25 billion of the 32-billion-ruble increase over planned 1953 expenditures. Traditional primary sources of revenue, however, rose only slightly, leaving a large increase in unknown sources of revenue to cover the known rises in expenditures. In view of this, it is possible that there is in 1954 a more inflationary situation in the economy than in 1953.

#### A. Financing the National Economy.

In 1954 the National Economy will receive 216.4 billion rubles, compared to 180.4 billion rubles in 1953. Organizational breakdowns within the category Financing the National Economy have undergone in 1953 and 1954 significant shifts in definition, which render comparison with previous years difficult. With the aid of estimation of certain shifting categories, some comparison can be made.

Expenditures under this category go to economic organizations for new capital investment, expansion of working capital, subsidies, operational expenditures, and capital repair. 27/ MTS and other agricultural service organizations as well as certain enterprises of the Ministry of Communications are entered

\* Table 4 follows on p. 13.

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Table 4

Soviet Budget Expenditures  
1950-54

	Billion Rubles									
	1950 28/		1951 29/		1952 30/		1953 31/		1954	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	32/
<u>Financing the National Economy</u>										
Industry	85.3	N.A.	79.9	N.A.	80.6	N.A.	82.6	N.A.	90.9 a/*	
Agriculture	36.6	34.2	39.0	N.A.	34.7	33.5	(38.6)	N.A.	(55.5) b/ c/	
Trade and Procurement	9.3	N.A.	11.2	N.A.	13.3	N.A.	(14.5) b/ d/	N.A.	(16.0) b/ d/	
Transport and Communications	15.0	N.A.	11.9	N.A.	14.3	N.A.	17.4	N.A.	21.5	
Municipal Economy	5.6	N.A.	5.0	N.A.	(5.0) b/ e/	N.A.	(6.5) b/ e/	N.A.	(7.5) b/ e/	
Other	12.6	N.A.	31.5	N.A.	32.5	N.A.	32.9	N.A.	25.0	
Total	164.4	157.3	178.5	179.6	180.4	178.8	192.5	180.4	216.4	
<u>Social-Cultural Measures</u>										
Education	59.5	N.A.	59.0	57.3	60.0	58.5	62.1	61.1	67.2	
Health and Physical Culture	22.0	N.A.	21.9	21.7	22.8	22.3	24.8	24.2	29.3	
Aid to Mothers	4.0	N.A.	4.1	N.A.	4.5	N.A.				
Social Security	22.4	N.A.	22.3	N.A.	37.5	N.A.	42.9		44.9	
Social Insurance	12.8	N.A.	13.5	N.A.						
Total	120.7	116.8	120.8	118.9	124.8	122.8	129.8	128.8	141.4	
Administration	13.9	13.8	14.3	14.1	14.4	N.A.	14.3	f/	13.9 f/	
Internal Security	21.1	N.A.	N.A.	N.A.	17.0	N.A.	(13.0) b/ g/	N.A.	(14.0) b/ g/	
Defense	79.4	82.9	96.4	93.4	113.8	108.6	110.2	(105.0) b/ h/	100.3	

\* Footnotes for Table 4 follow on p. 14.



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Table 4

Soviet Budget Expenditures  
1950-54  
(Continued)

	1950 28/		1951 29/		1952 30/		1953 31/		Billion Rubles
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	
Loan Service	5.5	N.A.	7.0	N.A.	8.9	N.A.	9.8	N.A.	10.5
Reserve Fund, Council	6.1	N.A.	N.A.	N.A.	6.1	N.A.	(6.1) b/	N.A.	(6.1) b/
of Ministers	3.0	N.A.	N.A.	N.A.	1.4	N.A.	(3.0) b/ i/	N.A.	(5.0) b/ i/
Allocments to Special Banks									6.5
Compensation for Inventory									9.7
Revaluation	13.8	41.9	34.5	37.0	10.1	29.1	4.8	N.A.	523.8
Undisclosed Expenditures	427.9	412.7	451.5	443.0	476.9	460.2	483.5	N.A.	
Total Real Expenditures									15.7
Allocation for Retail							43.2	N.A.	
Price Reductions									
Allocation for Procurement									
Price Rises	427.9	412.7	451.5	443.0	476.9	460.2	3.8 j/	9.0 k/	23.3
Total Listed Expenditures							530.5	514.8	562.8
(Comparable Undisclosed	49.5	41.9	41.5	37.0	57.9	50.0	98.0	100.6	104.8
Expenditures) l/									

a. Total allocations to Industry and Trade were 93.9 billion rubles; total allocations to trade from the budget and other sources are 5.6 billion rubles, of which it is estimated that about 3 billion rubles will come from the budget. This leaves 90.9 billion rubles to come from the budget to Industry.

b. Tentative estimates, made, except where noted, on the basis of previous years.

c. It is estimated that of the 62.5 billion rubles allocated to Agriculture and Procurement in 1954, about 7 billion rubles will be allocated to Procurement. It is estimated that of the 39.9 billion rubles allocated to Agriculture and Procurement in 1953, allocations to Procurement were 6.4 billion rubles. Additional allocations to Agriculture in 1953 were 5.1 billion rubles (39.9 minus 5.4 plus 5.1 equals 38.6).

d. Estimates of allocations to Trade and Procurement are based on considerations of a large increase in trade turnover in 1953, which would lower overhead costs of retail trade, and on increased investment in trade in 1954.

e. These estimates for Communal Economy are made on the basis of republic budgets allocations. All allocations to Communal Economy are made through the republic budgets.

f. It was announced in 1953 that there would be savings of 6.5 billion rubles in the allocations to administration over those of 1952. Actual expenditures for 1953 were not given. Planned expenditures for 1953 were stated to be a savings of 3.9 billion rubles over 1953. The plan figure was given in an article in Finansy i Kredit 33/ of 13.9 billion rubles. Since the allocations for administration and internal security are lumped together for voting purposes at the Supreme Council, it is assumed that these savings refer to both. Therefore 1952 and 1953 actual expenditures on administration are not known.

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Table 4

Soviet Budget Expenditures  
1950-54  
(Continued)

g. These estimates are discussed in the text below. The decline in 1953 is based on the merger of the MVD and MGB, and also the rise in explicit defense expenditures; the slight rise in 1954 is based on the reorganization of the MGB into the Committee for State Security, and also on the decline in explicit defense expenditures.

h. The estimate for defense expenditures in 1953 is based on over-all expenditure underfulfillment, and the downward trend in recent plan figures for defense, and the fact that plans are usually based on the performance of the preceding time period.

i. Allotments to Special Banks for long-term credit resources are assumed to be rising, in view of increased activity in agriculture and housing.

j. The only mention of raising procurement prices in the 1953 budget plan was in connection with livestock products. In Voprosy Ekonomiki 34/ the increase in kolkhoz income as a result of higher procurement prices on livestock was to be 3.8 billion rubles.

k. In the 1954 budget speech there was given a figure of "more than 9 billion rubles" spent for raising procurement prices in 1953.

l. Planned items of secondary expenditures are more often disclosed than corresponding actual items. Therefore, in order to compare plan and fulfillment of secondary and undisclosed expenditures, components of undisclosed actual expenditures are included here in undisclosed plan expenditures.

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on a gross basis in the budget under Financing the National Economy and receive all their expenditure funds from this category. 35/

In 1954, about 42 percent of the allocations made to the national economy will go to industry, 25 percent to agriculture, 17 percent to trade and transport, and the remaining 16 percent to a residual which includes expenditures to the communal economy, state food and material reserves, and other research and experimental work. Possibly the development of nonconventional weapons is included here since there does not seem to be room elsewhere in the budget for it; some of it also may be included under heavy industry.

In 1954, industry continues to receive large allocations. They are about 10 percent higher than those planned for 1953. Between 1950 and 1953, allocations to industry declined slightly. The greatest decline occurred in 1951, after the abolition of subsidies to industry and transport in 1950, and since then the allocations have been rising each year. Allocations to transport have also steadily risen after a decline in 1951. Allocations to agriculture rose in 1951, fell in 1952, and by 1953 had not yet regained the 1951 level. Agriculture, however, received more attention in 1954 than other branches of the economy, and allocations to agriculture rose to the highest level known. An increase of 17 billion rubles out of a total national economy increase of 24 billion rubles went to agriculture. Budget allocations to agriculture and procurement in 1954 reflect the positive measures being taken for the development of agriculture. In particular, MTS allocations show an increase of 10 billion rubles, 4 of which are for increased capital investment. The other 6 billion are for increased operational expenditures. 36/

The fact that, beginning in 1953, procurement was included in the agricultural category makes it difficult on the basis of published budgetary statements to compare allocations to agriculture in 1953 and 1954 with the same allocations of former years. In Table 5,\* estimates of agriculture alone have been made for comparability. In 1953 it was stated that allocations to agriculture and procurement were 39.9 billion rubles. 37/ "Additional" allocations were given as 13.6 billion rubles, which was broken down as follows 38/: (1) 4.1 billion rubles, representing the loss in agricultural tax receipts; (2) 2.4 billion rubles additional allocations to the MTS;

\* P. 18, below.

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(3) and 6.5 billion rubles raising procurement prices of livestock products and other livestock measures, of which,\* (a) 3.8 billion rubles were for raising procurement prices, and (b) 2.7 billion rubles were for other livestock measures. Of these items, (1) and (3, a) cannot be considered additional allocations to agriculture and procurement under Financing the National Economy. Item 1 is a loss in revenue, and item (3, a) is included in "other expenditures" (see discussion above\*\* on unorthodox entries in the budget). Therefore, total allocations to agriculture and procurement in 1953 under Financing the National Economy are estimated at 45 billion rubles (39.9 + 2.4 + 2.7). Table 5\*\*\* gives the estimated breakdown for planned allocation to agriculture and procurement in 1953 and in 1954.

On the basis of this information, it should be noted that in 1952 and 1953 the allocation to agriculture was not so high as it had been in 1950 and 1951, respectively. Thus, although a new program for the development of agriculture was announced in 1953, investment in agriculture had to be brought up from a level below that of 1950. Evidently, commitments already made in 1953 left it impossible to carry out the new program to any great extent in the current year. By 1954, however, it has probably become possible for funds to be made available for reallocation from other sources to agriculture.

Besides the shift of procurement to agriculture, in 1954, internal trade was shifted into industry, in particular, light industry. 40/ This leaves, from the old trade and procurement section, foreign trade, which is not mentioned in the 1954 budget and so joins the "other" category under Financing the National Economy. Table 6\*\*\*\* shows the changes made in 1954 in the accounts under Financing the National Economy.

For purposes of comparison, continuing estimates through 1954 can be made for the old categories of Trade and Procurement. Table 4\*\*\*\*\* shows this.

\* This breakdown was made on the basis of announced increases in kolkhoz income from increased procurement prices on livestock products. 39/ The amount was to be 3.8 billion rubles: since procurement organizations are subsidized for rises in procurement prices, this would be the amount spent for that purpose.

\*\* On pp. 9-11.

\*\*\* Table 5 follows on p. 18.

\*\*\*\* Table 6 follows on p. 19.

\*\*\*\*\* On p. 13, above.

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Table 5

Estimated Breakdown of the Planned Allocations  
to Agriculture and Procurement  
in the Soviet Budget  
1950-54

					Billion Rubles
Allocation	1950	1951	1952	1953 <sup>a/</sup>	1954
Agriculture	36.6	39.0	34.7	(38.6) <sup>b/</sup>	(55.5) <sup>b/</sup>
MTS			17.0	19.8	30.8
Other Agriculture			17.7	(18.8) <sup>b/</sup>	(24.7) <sup>b/</sup>
Procurement <sup>c/</sup>				(6.4) <sup>b/</sup>	(7.0) <sup>b/ d/</sup>
Agriculture and Procurement				(45.0) <sup>b/</sup>	62.5

a. The 1953 breakdown on agriculture and procurement is made on the basis of the basic allocation plus additional allocations mentioned in the 1953 budget speech and law. These "additional" allocations are assumed to be additional over actual 1952 expenditures. The 1952 actual expenditures to agriculture were 33.5 billion rubles; adding 2.4 billion rubles for development of MTS plus 2.7 billion rubles for live-stock measures gives an allocation of 38.6 billion rubles for 1953. To find procurement allocations in 1953, the "additional" items are left out, and the difference between 33.5 billion rubles and 39.9 billion rubles, the basic allocation to agriculture and procurement -- that is, 6.4 billion rubles, is assumed to be the procurement allocation in 1953. In 1952, allocations to trade and procurement were 13.3 billion rubles; 6 billion rubles of this for procurement does not seem unreasonable.

Actual MTS expenditures in 1952 were 17.4 billion rubles, <sup>41/</sup> and an "additional" 2.4 billion rubles was appropriated to the MTS in 1953, bringing the total to 19.8 billion rubles in 1953. Actual expenditures by MTS were 20.3 billion rubles.

b. Figures in parentheses are tentative estimates.

c. It must be noted here that the amount indicated in the above table allocated to procurement is not the amount paid to procurement organizations for the raising of procurement and purchase prices on agricultural products: this item is included in the category "other expenditures," and is discussed in a previous section on the inclusion of

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Table 5

Estimated Breakdown of the Planned Allocations  
to Agriculture and Procurement  
in the Soviet Budget  
1950-54  
(Continued)

unorthodox accounting entries in the budgets of 1953 and 1954. The procurement allocation listed here includes investment, costs of storing products, and any operational losses incurred by the organization.

d. On the basis of 6.4 billion rubles allocated to procurement in 1953, an appropriation of 7.0 billion rubles is estimated for 1954.

Table 6

Changes in Accounts under Financing the National Economy  
in the Soviet Budget  
1952 and 1954

<u>1952 Accounts</u>	<u>1954 Accounts</u>
Industry	Heavy Industry
Agriculture	Light Industry and Trade
Transport and Communications	Transport and Communications
Trade and Procurement	Agriculture and Procurement
Other	Other
State Reserves	State Reserves
Municipal Economy	Municipal Economy
Other Miscellaneous	Foreign Trade
(Nonconventional Weapons)	Other Miscellaneous
	(Nonconventional Weapons)

In 1954, there was a significant rise in the portion of the total budget to be spent by the Union Republics. Whereas the republic

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budget expenditures rose from 1950 to 1953 by 6 percent, from 1953 to 1954 they rose by 16 percent (from 102.6 billion rubles to 119.6 billion rubles). <sup>42/</sup> The bulk of the rise in republic budgets was absorbed by higher expenditures under Financing the National Economy. From 1950 to 1953 these expenditures had risen from 21.2 billion rubles to 22 billion rubles <sup>43/</sup>; in 1954 they are 35.5 billion rubles. <sup>44/</sup> Most of the rise in republic expenditures is probably caused by increased allocations to agriculture and light and local industry, which are administered to a large extent on the republic level. This rise also indicates, however, an increase in decentralization of financial control, which is probably intended to act as an incentive for greater efficiency.

B. Capital Investment.

In the budget speech, total allocations to investment in fixed capital and expansion of working capital are usually given, with specification as to the amount which will come from the budget and the amount which will come from the enterprises' own funds. The latter consist of retained profits, amortization deductions, mobilization of internal resources, and savings from lowered costs of production. In 1954, allocations to fixed capital are 169 billion rubles. This is in line with the Fifth Five Year goal for increasing capital investment. Allocations for the expansion of working capital are 15.9 billion rubles. Funds designated for expansion of working capital are used when new enterprises are put into operation or when existing enterprises are expanding production and need more funds for wages and the procurement of raw materials, fuel, and other items. Expanded production and investment in the building of new enterprises has been greatly increased in 1953 and 1954, and there is therefore a larger need for working capital than in former years, when nonproductive projects like the Main Turkmen Canal and the South Ukrainian-North Crimean Canal absorbed large portions of fixed investment funds. Table 7\* shows capital investment and expansion of working capital from the budget and other sources.

In comparison with 1951 and 1952, in 1953 and 1954 there were sharp rises in the amount of funds to come from the enterprises' own resources for expanding working capital. These increased funds were a reflection of the increased responsibility and control being given managers of enterprises, probably in an effort to increase enterprise efficiency and at the same time get the consumer goods program under way.

\* Table 7 follows on p. 21.

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Table 7

Planned Capital Investment and Expansion of Working Capital  
in the USSR  
1950-54

	Billion Rubles				
	<u>1950</u> <u>45/</u>	<u>1951</u> <u>46/</u>	<u>1952</u> <u>47/</u>	<u>1953</u> <u>48/</u>	<u>1954</u> <u>49/</u>
<u>Investment in Fixed Capital</u>					
Budget	106.5	98.0	98.1	106.7	116.3
Own Funds	29.1	34.0	45.0	49.4	52.7
Total	<u>135.6</u>	<u>132.0</u>	<u>143.1</u>	<u>156.1</u>	<u>169.0</u>
<u>Expansion of Working Capital</u>					
Budget	6.7	5.4	4.6	4.3	4.8
Own Funds	9.6	5.9	6.1	10.8	11.1
Total	<u>16.3</u>	<u>11.3</u>	<u>10.7</u>	<u>15.1</u>	<u>15.9</u>
<u>Total Investment and Expansion of Working Capital</u>					
Budget	113.2	103.4	102.7	111.0	121.1
Own Funds	38.7	39.9	51.1	60.2	63.8
Total	<u>151.9</u>	<u>143.3</u>	<u>153.8</u>	<u>171.2</u>	<u>184.9</u>

This year, for the first time the budget speech and law gave detailed information on capital investment in sectors of the national economy. This information includes sources from both the budget and the enterprises' own funds and is contained in Table 8.\*

\* Table 8 follows on p. 22.

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Table 8

Announced Capital Investment in the USSR  
by Sector of Economy 50/  
1953 Actual and 1954 Plan

Sector	1953 Actual (Billion Rubles)	1954 Plan (Billion Rubles)	1954 Percent of Total
Heavy Industry	80	90	53.3
Light Industry	7.6	14	8.3
Agriculture	12	21	12.4
Trade and Cooperatives	2	4	2.4
Transport and Communications	17.7	18.6	11.0
Computed Total	<u>119.3</u>	<u>147.6</u>	<u>87.4</u>
Unaccounted For <u>a/</u>	N.A.	21.4	12.6
Total	<u>N.A.</u>	<u>169.0</u>	<u>100.0</u>

a. Includes communal economy, state reserves, other minor activities, and possibly the development of nonconventional weapons.

The information in Table 8 indicates that in 1954 there was a 24-percent increase in total capital investment in industry, agriculture, transport, and trade. In order to achieve such a high increase in these known sectors, there may have been some diversion of investment funds away from the unknown category in 1954, which would bring the increase in total investment to less than 24 percent. In this connection, analysis has indicated that budget allocations to the unknown category in 1954 are planned to be about 7 billion rubles lower than in 1953. (See Table 3.)

It is probable that the difference between actual capital investment in 1953 and planned capital investment in 1954 is greater than actual and plan differences in other years. The increase in actual investment in 1953 was not so high as in other years; it amounted to 104 percent of 1952 investment. 51/ Specifically, it is known that

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the Ministry of the Food Industry underfulfilled its investment plan by 15.3 percent, 52/ and kolkhoz investment is estimated to have been underfulfilled by 30 percent. Although kolkhoz investment is not included in these figures, it may be indicative of other agricultural investment plan fulfillment. Lack of information on actual investment expenditures in any recent year, however, renders comparison and analysis difficult.

Heavy industry continues to receive the bulk of announced capital investment funds. Investment in light industry, agriculture, and trade in 1953 amounted to 18.1 percent of the total, and in 1954, to 26.4 percent of the planned total. The real effort in investment in agriculture did not take place until 1954, as can be seen from Table 9.

Table 9

Capital Investment in Agriculture in the USSR  
1949-54

	<u>Kolkhoz Investment</u>			<u>All Other Agricultural Investment <sup>a/</sup></u>
	<u>Long-Term Credit</u>	<u>Own Funds</u>	<u>Total</u>	
1949 (Actual) <u>53/</u>	2.7	7.9 <u>b/</u>	10.6	15.7
1950 (Plan) <u>55/</u>	3.8			
1950 (Actual)	2.0	9.5	11.5	
1951 (Plan) <u>56/</u>	3.5			
1951 (Actual)	(2.5) <u>c/</u>	8.0 <u>d/</u>	10.5	
1952 (Actual) <u>57/</u>	2.7 <u>e/</u>	8.7 <u>d/</u>	11.4	
1953 (Plan) <u>58/</u>	3.5 <u>f/</u>	17.0	20.5	12
1953 (Actual)	(2.7) <u>c/</u>	11.5 <u>g/</u>	(14.2) <u>c/</u>	
1954 (Plan)	(4.1) <u>c/</u>	(16.0) <u>h/</u>	(20.1) <u>h/</u>	

a. Including primarily MTS and sovkhos investment.

b. Allakhaverdyan stated that monetary receipts to the indivisible fund in 1950 were 20 percent higher than they were in 1949. 54/ Monetary receipts to the fund are kolkhozes own funds earmarked for capital investment. It is assumed here that investment from the fund grows at the same rate as the fund.

c. Estimated (based on qualitative evidence and trends of other years).

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Table 9

Capital Investment in Agriculture in the USSR  
1949-54  
(Continued)

- d. Finansy i Kredit stated that the average percentage of total kolkhoz investment financed by long-term credits from the Agricultural Bank in 1951 and 1952 was 23.7. This figure was applied to the known figures for long-term credits for each year.
- e. Of this, 272 million rubles were for rural electrification.
- f. Of this, 2.141 million rubles were for development of livestock; 290 million rubles for rural electrification, 275 million rubles for obtaining mineral fertilizer, and about 800 million rubles for construction of hothouses and farm buildings, for irrigation, and so on.
- g. The 1954 budget speech announced that the monetary resources of the indivisible fund in 1953 had grown by 32 percent as compared to 1952. Monetary resources are earmarked for capital investment. It is assumed here that investment from the fund grows at the same rate as the fund.
- h. Tentative estimates based on the fact that other allocations to agriculture have risen in 1954.

In 1953, an additional 0.9 billion rubles over 1952 was allocated to construction in MTS, 59/ and in 1954, an additional 4 billion rubles over 1953 was allocated for this purpose. 60/ Construction in MTS, that is, building repair and construction of buildings, from 1954 through 1956 will amount to 10.5 billion rubles, or 5 times more than the total amount expended for the same purpose in the years 1946 through 1953. 61/

In 1950 the plan for long-term loans from the Agricultural Bank to kolkhozes was fulfilled only by 52 percent. This was probably true also of other parts of the agricultural investment plan in 1950. In 1951 and 1952, kolkhoz investment remained low, but in 1953 the plans were raised considerably. It is doubtful, however, that kolkhoz investment in 1953 was fulfilled. By 1 September 1953, long-term credits for rural electrification had amounted to only 153.5 million rubles, or 53 percent of plan. 62/ It was announced in early 1954 63/ that the credit plan

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of the agricultural long-term investment bank in 1953 was largely underfulfilled and that in 1954 the credit plan of the agricultural bank is to be 1-1/2 times more than in 1953. In the same source, it was stated that the collegium of the Ministry of Finance had noticed serious shortcomings in the Agricultural Bank in its work of crediting plans for the return of loans. This information on agricultural investment shows that in the years 1951 and 1952, capital inputs in agriculture suffered, most probably as a result of the Korean War. The fact that in 1950 relatively high amounts were planned for investment and that actual achievements were lower than in other years supports this thesis. It is also evident that, as in other areas of investment in 1953, the goals for kolkhoz investment fall short by a significant amount, an estimated 30 percent. The lack of discussion on planned kolkhoz investment in the 1954 budget also bears out this estimate.

A pattern similar to that in agricultural investment also exists in capital investment in consumer goods industry, in particular in the light and food industries; investment in those two ministries is shown in Table 10. 64/

Table 10

Capital Investment in Light and Food Industries  
in the USSR  
1950-54 and 1951-55 Plan

Billion Rubles	
<u>Year</u>	<u>Amount</u>
1950	8.1
Plan 1951-55	53.0
1951	6.8
1952	7.2
1953	7.6
1954	14.4

Here again it seems that the Korean War disrupted an expansion of those industries. It was not until 1954 that investment reached a level higher than that of 1950. The revisions in the economy introduced in 1953 seem not to embody revised goals of the present Five Year Plan in the ministries concerned with consumer

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goods. It is more likely that an effort was introduced to fulfill the Five Year Plan (1951-55) on time, since the first 3 years show that investment was well below the rates necessary for fulfillment of the Five Year Plan.

In addition to budget allocations to sectors of the national economy, the budget law this year gave the allocations to those same sectors from the nonbudget resources. In like manner investment was also broken down, as is shown in Table 11. 65/

Table 11

Announced Investment in the USSR by Sector of Economy  
1954 Plan

	Billion Rubles			
	<u>Budget Allocation</u>	<u>Nonbudget Resources</u>	<u>Total Allocation</u>	<u>Capital Investment</u>
<u>Financing the National Economy</u>	216.4	110.3	326.7	169.0
Heavy Industry	79.7	53.5	133.2	90.0
Light Industry and Trade	14.2	22.4	36.6	18
Agriculture and Procurement	62.5	11.9	74.4	21
Transport and Communications	21.5	17.3	38.8	18.6
Other	38.5	5.2	43.7	21.4

It is possible that some of this included social-cultural construction. As of the present there is no available evidence that clearly states whether announced investment pertains only to the budget category of Financing the National Economy or also included some social-cultural construction. Here it is assumed that it pertains only to the National Economy.

Items included in the "other" category of the budget are Communal Economy, State Reserves, some research and experimental work, other minor items, and, it has been suggested, the development of nonconventional weapons. Most of these items receive all

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their funds from the budget, as is evident from the table. Of the total undisclosed allocation of 43.7 billion rubles, 38.5 billion rubles will come from the budget. In view of this, it is possible that the development of nonconventional weapons is included here since it too would probably receive all its funds from the budget.

C. Social-Cultural Measures.

Social-cultural measures are planned to cost 141.4 billion rubles in 1954, compared to 128.8 billion rubles in 1953, an unusually high rise of almost 10 percent. The bulk of the rise was absorbed by appropriations to Education and to Health and Physical Culture. Education is to receive 67.2 billion rubles, which will go in particular toward the education of agricultural specialists and also to expanding enrollment in the educational system. In one year, 1954, there is planned to be a doubling of students who will finish secondary school. 66/ The Academy of Sciences and other scientific research institutes will receive, from the budget and other sources in 1954, 9.5 billion rubles. 67/ Research on nonconventional weapons would probably be included in this category. Allocations to science declined from 1949 to 1951 and appeared at a new high in 1954. 68/ Allocations to science from 1949-54 are shown in Table 12.

Table 12

Allocations to Science in the USSR  
1949-54

<u>Year</u>	<u>Billion Rubles</u>		
	<u>Budget</u>	<u>Own Resources</u>	<u>Total</u>
1949	6.6	2.5	9.1
1950	5.6	2.5	8.1
1951	5.3	2.7	8.0
1952	N.A.	N.A.	N.A.
1953	N.A.	N.A.	N.A.
1954	N.A.	N.A.	9.5

This is probably the highest allocation to science since 1949; it may reflect increased nuclear and nonconventional weapons research.

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Social Insurance, Social Security, and Aid to Unmarried Mothers and mothers with many children will receive slightly increased funds in 1954 (44.9 billion rubles in 1954 compared to 42.9 billion rubles in 1953).

D. Defense Expenditures.

1. Explicit Defense Expenditures.

Explicit defense expenditures go for maintaining and equipping the land, sea, and air forces of the USSR. Procurement of end items is estimated to amount to about 54 percent of the defense budget. Planned explicit defense expenditures are 100.3 billion rubles, compared to 110.2 billion rubles planned in 1953. In terms of procurement the 1954 effort is estimated to be approximately double that of 1950 and two-thirds as high as the World War II maximum of 1944. Table 13\* shows the index of munitions procurement. The 1954 allocation appears adequate to maintain the Soviet armed forces at their present strength and level.

If expenditure underfulfillments in financing the national economy, social-cultural measures, and minor outlays are deducted from total underfulfillment, there is left a minimum underfulfillment item of 3 billion rubles which probably can be attributed to defense. It is estimated that defense expenditures in 1953 were about 105 billion rubles, an underfulfillment of 5 percent.

Expenditures for the development of nonconventional weapons are probably not included in this explicit military appropriation. The major costs of development are believed to be accounted for under the heading of "Financing the National Economy." Consequently, the decline in direct defense outlays does not represent a decline in these important categories.

2. Internal Security.

The item Internal Security, which includes appropriations for the police and border police functions of the MVD and MGB, is usually included in considerations of defense expenditures. The economic activities of the MVD are included in the national economy.

\* Table 13 follows on p. 29.

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Table 13

Index of Munitions Procurement  
in the USSR in Constant Prices  
1940-54

(1940 = 100)

<u>Year</u>	<u>Amount</u>
1940	100
1941	103
1942	173
1943	301
1944	337
1945	276
1946	68
1947	64
1948	71
1949	83
1950	110
1951	153
1952	195
1953	204
1954	200

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██████████ has pointed out that expenditures for internal security historically have had a trend opposite to that of explicit defense expenditures. This relationship is shown in Table 14.\* Immediately after the war, for instance, when explicit defense expenditures were about halved, internal security expenditures rose significantly. In 1952, when defense expenditures increased sharply, Internal Security expenditures fell to their 1946 level. 69/

This pattern holds implications of the Soviet attitudes toward internal and external security.

In 1953 the merger of the MVD and MGB and the probable removal of some economic activities of the MVD 70/ probably served to reduce administrative costs of the organization. In 1954, however, a Committee for State Security was established, and it seems to have taken the place of the former Ministry of State Security (MGB). In

\* Table 14 follows on p. 30.

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Table 14

Expenditures on Internal Security and on Defense  
in the USSR  
1944-50 and 1952

	Billion Rubles							
	<u>1944</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1952</u>
Internal Security a/	7.0	9.9	17.4	24.1	25.6	23.1	21.1	17.0
Defense	137.7	128.2	73.6	66.3	66.3	79.2	82.9	113.8 a/

a. Plan figures.

view of this, expenditures to internal security will probably be about 13 billion rubles in 1953 and planned at a higher level in 1954. The decline in 1953 relative to 1952 is based on the fact that the MVD lost some of its economic functions and was merged with the MGB in 1953, presumably resulting in a decline of administrative costs.

E. Administration.

It was indicated in the 1953 and 1954 budget laws that expenditures for state administration and justice have been undesirably high. No figures for administration were given in the budget laws for either year, although there was a statement in the 1954 law that there would be a savings of 3.9 billion rubles in administrative expenditures 71/ and another statement in the 1953 law concerning a planned savings of 6.5 billion rubles. 72/ Evidence indicates that, when the law is voted on in the Supreme Soviet, administration and internal security are lumped together under one heading, and further, that when administration alone is mentioned in the budget speech as receiving about a 14-billion-ruble appropriation, which is a fairly constant amount, only organs of state administration and justice are referred to. Therefore, the reduction in administrative expenditures mentioned in the 1953 and 1954 budget laws are taken to refer to both administration and internal security, and allocations to administration given in 1953 and 1954 refer to only administration and justice. These latter expenditures cover all central administrative-control organs, the Ministry of Foreign Affairs, the State Planning

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Commission, and administrative overhead costs of all individual ministries and state judiciary bodies. 73/ In 1954, administration alone is to receive 13.9 billion rubles. It is probable that the administrative expenditures goal in 1952 and 1953 was overfulfilled, in view of the large reductions planned in 1953 and 1954, and of the many administrative changes which have occurred during the past two years.

F. Secondary Items of Expenditure.

Items of expenditure not usually listed by the Supreme Council are allocations to Justice, the Reserve Fund of the Council of Ministers, Allotments to Special Banks, transfers to Republic and local budgets, and other unknown and minor expenditures. 74/ The usual underfulfillment of the undisclosed category reflects the unspent funds in the reserve funds of the Council of Ministers of the Union and of the Union Republics. Where known, the allocations have been of a fairly constant amount, varying between 5 billion and 6 billion rubles.

The fund is for emergency measures and financial bottlenecks, just as state food and material reserves are for emergency measures and economic bottlenecks. 75/ It is possible that some small amount of funds is designated for strategic purposes, under the category Other Expenditures. Major items of strategic expenditure, however, are believed to come under the heading of the National Economy.

It is interesting to note that in 1953 for the first time in recent years, undisclosed expenditures in 1953 were overfulfilled. One cause for this is probably that the reserve fund was used up in connection with emergency measures that arose that year.

Because the new program was not inaugurated until midyear and the budget was announced in August, it is likely that the planners could not foresee all the financial difficulties that would arise in connection with the implementation of the new program. Also, a detailed plan for the raising of procurement prices on agricultural products was not announced until September, and the only known amount allocated for this purpose in the budget was 3.8 billion rubles for raising procurement and purchase prices of livestock products. 76/ It is most probable therefore that the 1953 budget, as announced, was only a tentative start toward implementing the new program. The 1954 budget gets the new program well under way.

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APPENDIX

SOURCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

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